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SUBJECT: TREASURY DEPUTY SECRETARY KIMMITT MEETS BARROSO ADVISOR CABRAL

REF: A) USEU BRUSSELS 3131 B) USEU BRUSSELS 3133 C)

USEU BRUSSELS 3134

¶1. (SBU) Summary. Treasury Deputy Secretary Robert Kimmitt and Ambassador Gray held a warm meeting with Antonio Jose Cabral, Senior Advisor to European Commission President Barroso, on October 12, 2007. Kimmitt and Cabral discussed progress on preparations for the first U.S.-EU TEC meeting November 9. Both viewed the effort as being off to a good start. Kimmitt recommended the TEC address long-term as well as short and medium-term goals related to discrete regulatory projects. Cabral agreed this would be a useful expansion of the TEC mandate. Kimmitt also provided U.S. views on sovereign assets and wealth funds, high-profile issues the TEC will address. Cabral described work to define EU views on investment and broader globalization issues. Deputy Secretary General Italianer reviewed the active effort to

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reduce EU regulatory administrative burdens by 25 percent. Finally, Kimmitt and Ambassador Gray advised that EU firms should highlight their U.S. job creation to help Congress understand the importance of open investment regimes.

USG Participants: Treasury Deputy Secretary Robert M. Kimmitt; U.S. Ambassador to the EU C. Boyden Gray; Treasury Financial Attach to the EU Barbara C. Matthews; Treasury EU Office Director Eric Meyer; Treasury Press Officer Ann Marie Hauser; USEU Economic Officer David Lippeatt (notetaker). EU Delegation: Senior Advisor to Commission President Barroso Antonio Jose Cabral; Deputy Secretary General for Internal Markets Alexander Italianer; two additional staff to Mr. Cabral. End Summary.

TEC AGENDA

¶2. (SBU) Treasury Deputy Secretary Kimmitt and Ambassador Gray held a warm and frank meeting with Antonio Jose Cabral, Senior Advisor to European Commission President Barroso, on October 12, 2007. Cabral opened by expressing his view that preparations for the first meeting of the Transatlantic Economic Council (TEC) on November 9 are going well. He and Commission President Barroso are pleased by the high-level political impetus behind the TEC in Washington and understand that the U.S. TEC structure is functioning well. He explained that the EU has also set up an efficient TEC structure, with Enterprise Commissione Verheugen leading.

¶3. (SBU) The Commission eels that the TEC should balance

both short-term concrete actions and long-term vision for collaboration, according to Cabral. However, he believed that the top priority for the first meeting would be to show the commitment is working by achieving some short term goals. Longer-term, the TEC can achieve much through strategic discussions, such as on China.

¶4. (SBU) Kimmitt agreed that the political impulse behind the TEC should make it effective. In 17 years of U.S.-EU Summits, he noted, many initiatives have been launched, but few have achieved much. The TEC structure, proposed by German Chancellor Merkel and backed by Presidents Bush and Barroso, promises to be different. He underscored that long-term TEC goals are necessary now, saying that success on these efforts will be judged in three, five or seven years, not in just a few months.

¶5. (SBU) Cabral concurred, saying that EU is underscoring its commitment to the TEC by sending Commissioners Verheugen, Ferrero-Waldner (External Relations), McCreevy (Internal Markets) and Mandelson (Trade), all of whom are permanent members of the TEC structure. For the inaugural TEC meeting, he added, Commissioners Kuneva (Consumer Protection) and Kovacs (Taxation and Customs) will also participate. Kimmitt noted that a number of short-term items have already been achieved, notably the EU-U.S. Air Transport Agreement. In addition, significant progress has been made on accounting issues since the spring, and the Investment Dialogue has been established at a good time. He expressed the view that the TEC process will have more richness if it is sufficiently flexible to permit discussion by TEC Members of the current issues of the day, even if they are not short-term deliverables for any given meeting. Cabral agreed that a broad discussion could complement the TEC,s initial remit, but also noted the importance of not departing from the agenda.

¶6. (SBU) Kimmitt noted that the investment issues were already on the agenda for discussion at lunch. He indicated that the U.S. is closer to clarity on who is responsible for this issue domestically, and noted that in the lunch discussion Secretary Paulson would be the lead speaker. He then asked then about the Commission lead on investment. Cabral said that generally Trade Commissioner Mandelson leads, with strong participation by Internal Markets Commissioner McCreevy. Kimmitt noted that Commissioner Verheugen identified McCreevy as likely to lead on the investment issues under the TEC. Cabral responded that the Commissioners will make a joint, collegial decision on how responsibilities will be apportioned.

INVESTMENT POLICY AND SOVEREIGN ASSETS

¶7. (SBU) The Deputy Secretary stressed to Cabral that the TEC will provide an excellent opportunity to discuss sovereign wealth funds and sovereign assets generally. He noted that a discussion needs to occur on whether investment is a subset of trade or a stand-along issue. He indicated that at the Treasury Department, the trend increasingly is to view capital flows and growing investment protectionism as a separate though related component to policy initatives underway with respect to trade and currency issues. He further noted that the issue is challenging due to the ownership and control aspects associated with investment that are not present in the trade and currency area. He noted that the U.S. Treasury Department is encouraging finance ministries to begin discussing the importance of in-bound investment directly in addition to discussions regarding out-bound trade and currency. Going forward from a TEC perspective, he indicated that a clearer view would be needed on who within the Commission would be in the lead.

¶8. (SBU) Turning to sovereign wealth funds (SWF) specifically, Kimmitt advised that greater precision was needed. We should not over-dramatize the rise of SWFs, though vigilance is required. He urged a considered and analytical approach. He noted that SWFs have been around since the 1960s, and have generally been patient, long-term, non-political investors. They stem from government efforts to manage excess foreign exchange and resource earnings. It would be a mistake, he said, to send the message that SWFs are of concern only because China and Russia now have wealth to invest in global capital markets.

¶9. (SBU) Kimmitt also advised precision in terminology. He noted that many people expressing concern on SWFs are really concerned about state-owned enterprises (SOEs) and other state-owned assets. These entities may not share the same investment objectives or commitments to orderly markets as SWFs. Gazprom is a good example, he said, since its plans to invest in strategic sectors of European economies have created concerns on the part of some European governments.

¶10. (SBU) Kimmitt also advised that the macroeconomic impact of SWFs should be examined and require vigilance, given that volumes will rise from $2.5 trillion now to $12 trillion in a few years. For that reason, he said, the U.S. will press for the G-7 to ask the IMF to assess such macroeconomic impact. The G-7 will also ask the World Bank to work with the SWFs to develop guidelines and best practices for SWF operations. The idea here is to build on best practices already developed by the World Bank for reserves management activities. Finally, the U.S. will recommend that the OECD work directly with countries receiving SWF funds in order to foster discussion on investment review processes.

¶11. (SBU) Kimmitt said that U.S. discussions of SWFs within APEC and the G-20 revealed sensitivities on the part of Russia, the Gulf states, and others. These countries, and specific SWF managers with whom Treasury has spoken, are worried that transparency regarding proprietary positions or sectoral investments could affect the funds, performance. Concerns also exist that transparency regarding overall fund assets could lead to political pressure for these resources to be used for public finance. We must be careful, he noted, to seek appropriate levels of transparency that do not undermine SWF abilities to operate according to market principles.

¶12. (SBU) Cabral noted that SWFs and policy toward sovereign assets generally are high on the EU,s agenda. He described

the metrics for policy formulation being developed by the Commission as: transparency, governance, reciprocity and defining approaches to strategic sectors such as energy. He agreed that SWFs have played a useful historical role but underlined that they need a new look, given that their dimensions will be &huge8 within ten years.

¶13. (SBU) Cabral said that EU policy on investment is being examined in the context of a larger internal discussion on the EU,s need to play a more active role in shaping, rather than passively experiencing, globalization. An underlying goal when considering reciprocity noted, is to protect the interest of European citizens, firms, and values without being protectionist. He noted that the European Council meeting in a week,s time would consider an updated strategy for the EU,s external dimension. Deputy Secretary General Italianer clarified that while the EU enshrines free movement of capital within EU borders, free movement externally is subject to two provisos: 1) public policy issues, such as protection of strategic sectors; and 2) the principle of establishment. Cabral added that the Commission had not yet determined whether an EU dimension exists to the SWF issue, noting that it could be addressed at the national level instead.

¶14. (SBU) Kimmitt responded that the TEC is a perfect vehicle to discuss such issues. He indicated that Treasury will continue to discuss these issues with France and Germany, and that he would meet with Chancellor Merkel the following week in Berlin. He explained that the U.S. CFIUS investment review process is focused strictly on national security, not reciprocity.

¶15. (SBU) Ambassador Gray then raised a new DG Competition investigation, on state aid grounds, of a pending Ford acquisition of a defunct Daewoo plant in Romania. He stressed that Ford cannot wait a year or more for resolution of the investigation, and suggested that the Commission should resolve this quickly to avoid Romania,s loss of a good automotive sector investment.

EU PROJECT ON REDUCTION OF REGULATORY BURDEN

¶16. (SBU) DDG Italianer then briefed Kimmitt on the DG Internal Markets program to reduce the EU,s regulatory burden by 25 percent. He said the project originated in the Netherlands, which developed a method to measure the time and cost to firms of information required by governments. The methodology extended both horizontally and vertically, and focused on the administrative burden, or externally imposed costs, faced by business. He distinguished this from the internal administrative costs of business, e.g. bookkeeping and basic business operations, which government cannot really affect.

¶17. (SBU) The UK, Denmark, Germany and the Czech Republic are also undertaking such studies, Italianer continued. He said the results of the national exercises show that 40-60 percent of the administrative burden faced by firms stems from EU regulation. The EU has adopted a goal of reducing the EU portion of firms, administrative burden by 25 percent, he explained. Given the EU,s size and complexity, he continued, the Commission is targeting sectors, such as accounting and health and safety standard, which together make up about 80 of the overall EU administrative burden.

¶18. (SBU) Kimmitt asked how the new advisory forum chaired by Edmund Stoiber would function in relation to these activities. He noted that one major strategic consideration that influenced the U.S. decision to establish the TEC was in thinking that the TEC could be used to help the EU reach its goal of reducing regulatory burdens by 25 percent over the next 5 years. Italianer indicated that the new commission would work with external consultants to identify where the EU,s regulatory burden is highest. The goal was not to undermine policy objectives articulated in legislation (i.e., no deregulation) but instead to find more efficient means to accomplish the same goal. In addition, a group of national experts will engage to identify comparable targets across Member States. The entire exercise is fairly complex and long-term, he concluded. He noted that Commissioner Verheugen was not waiting to start the project, as he had made 10 proposals to reduce regulatory burdens, 9 of which had been adopted so far.

¶19. (SBU) Financial Attach Matthews asked for clarification on the accounting project in the context of reducing regulatory burden. Italianer explained that the 8th Company Law Directive created significant regulatory burdens and noted that the European Federation of Accountants was particularly concerned. The inquiry in the accounting area, he noted, was to focus on whether small and medium-sized enterprises (SMEs) needed to provide the same information (e.g., quarterly reports) as larger companies.

EU BUSINESS LEADERS SHOULD VISIT WASHINGTON

¶20. (SBU) As in his other Brussels meetings, Kimmitt emphasized to Cabral his message that the one way to help counter U.S. anti-investment feeling is for EU CEOs to visit Washington to emphasize the five million U.S. jobs created by EU and other foreign investment in the U.S. This investment generates 20 percent of U.S. exports, and is heavily focused in manufacturing, Kimmitt underlined. The Ambassador added that EU CEOs should visit members of Congress from districts where EU firms have manufacturing plants, to highlight the constituent benefits these EU investments bring. Kimmitt stressed that the business leaders should bring their U.S. plant managers to Capitol Hill to underscore these points. Both underscored the importance of relationship building so that Members of Congress can see the tangible benefits associated with individual transatlantic policy initiatives such as decreased barriers to investment across the Atlantic.

¶21. (U) This cable has been cleared by Deputy Secretary Kimmitt.

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